



Enhanced Small and Medium Sized Enterprise Development Program

Quarterly Performance Report

with Summary Results Tables

April 1, 2004 to June 30, 2004
with Annual Summary

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**Winrock International
Counterpart International
Center for Investment and Support (Prognoz)
Sakhalin Association of Business People
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1. Background

Winrock International, in partnership with Counterpart International, Center for Investment and Support (Prognoz), Sakhalin Association of Business People and Counterpart Enterprise Fund, is working to increase the number of successful small businesses and improve the environment for small businesses to emerge in the Russian Far East. Funded by the United States Agency for International Development, the Enhanced Small and Medium Sized Business Development Program (ESD) has four primary objectives:

- 1) Reduce the burden of regulations on SMEs by increasing SME association advocacy;
- 2) Increase the availability of credit for SMEs and entrepreneurs;
- 3) Provide and increase the availability of advanced business and sector-specific training skills; and
- 4) Build capacity of sector-specific associations by working through them to provide sector-specific consultancies.

In addition, the ESD Program will be demand driven, ensure women and remote people benefit, and will work to ensure collaboration between business support institutions and other businesses development projects with open and free information.

The project began August 1, 2003, and will continue until August 3, 2006. This report covers activities and results for the period from April 1 to June 30, 2004. It also provides a brief summary of annual results.

Project Administration

ESD Consortium had a quick launch and hired key personnel within the first quarter of its operations. Activities on the project continued to increase at a rapid rate and by March 2004, ESD added one more Program Manager to manage advanced business skills and sector-specific training and consulting in Buryatia, Sakha Republic, Chita Oblast and Amursk Oblast. After hiring Galina Tolstokulakova to this position, the number of trainings provided and people trained in these regions has increased drastically.

Partners

By the end of Year One, ESD has involved **seven** local partner organizations that implement the Enhanced SME Development Program in the Russia Far East:

Center for Foreign Trade and Investment “Prognoz” (Blagoveschensk),
The Sakhalin Association of Business People (Yuzhno-Sakhalinsk),
Counterpart Business Fund (Khabarovsk),
The Far Eastern Chamber of Commerce (Khabarovsk),
Enterprise Support Center “MAKON” (Ulan-Ude),
The Far Eastern Center for Economic Development (Vladivostok),
The State Organization for Additional Education “Business School” (Yakutsk)

On May 5, 2004 ESD signed a Subagreement with a new partner, the State Organization for Additional Education “Business School” in Yakutsk. This organization has started to actively implement the training components of the ESD Program in Sakha Republic.

In addition, ESD regularly collaborates with the **Russian Microfinance Center** from Moscow that provides seminars and training on micro-landing expertise to microfinance institutions in the RFE targeted regions.

Partner Meetings

ESD Partner Meetings have proved to be a successful tool for coordinating the program implementers' efforts and planning further necessary steps to achieve the program results. Such meetings have evolved during the last year. The first partners meeting in September 2003 addressed mainly administrative issues, the next meeting in November 2003 concentrated on reporting requirements, and the following meeting in March 2004 was devoted to improving coordination between partners, components, regions and other USAID programs.

The last partners' meeting was held on July 5-8, 2004, at Lake Baikal. The purpose of this meeting was to assess the program's results for Year One and work out plans for the second year of ESD Program implementation. The meeting included training on *Project Management* provided by a Moscow trainer, Vitaly Matrosov. This training enabled all parties to assess their strategies and goals in reaching the program's goals and to create a better vision of the intended program impact in the regions. During the meeting the partners had a unique chance to share their experiences and communicate their success to others. ESD welcomed participation of USAID/Moscow representatives Paul Mulligan and Yulia Shevchenko, as well as Erin Hughes from Winrock International and Katherine Schad of Counterpart International.

2. Progress Indicators

The ESD Program is achieving the declared goals. The Program has been assisting business associations to overcome administrative barriers, to become a proactive participant of the lawmaking process, and it strengthens selected associations. The Program promotes access to credit and leasing facilities for SMEs; it makes advanced business skills and sector-specific trainings available for a broader number of SMEs. The Program strengthens the organizational and financial sustainability of the partners. During Year One, the program has exceeded its targets. Because of ESD, **nine** associations have been strengthened and **eight** regulatory issues have been changed. More than **\$9.6 million** in loans occurred between SMEs and banks or lending institutions who attended ESD training, and **2,790** entrepreneurs were trained in advanced business skills and sector-specific training. All partners have commented on how the program has improved their own activities.

ESD developed a database of Russian trainers, a program website and a feasible mechanism to recruit trainers and partners within the first three months of its operations. The Consortium employs adaptive management, using market research and feedback from project participants and partners to meet the needs of the beneficiaries. Throughout the year, the Program participants collaborated with other donors, projects and local governments to ensure a high degree of coordination and overall effectiveness.

2.1. Improving Regulatory Environment

2.1.1 Summary of Component for Year One

The ESD Program is improving the regulatory environment of Amur, Buryatia and Sakhalin. Counterpart International works with three partners in each of the three regions. The approach has been to a) identify and assess business associations, b) strengthen the associations, c) teach them how to advocate for an improved business environment, and d) help them to conduct their own advocacy campaigns so they obtain practical experience in advocacy.

During Year One, Counterpart began by conducting an **assessment of partner associations**. We found that there are few business associations (BAs) in the regions and most were focused on specific sectors. Also, all of the associations present were weaker than expected. Nevertheless, associations that could help the program reach its goal were selected. The selection criteria included: credible and democratic organizational structure; clear mission and objectives; highly qualified and professional staff; association represents a large number of SMEs and is involved in sectors where there is economic potential; and demonstrated willingness (especially past experience) to work on regulatory issues. Those associations meeting the criteria were selected and are named below.

Sakhalin	Union of Entrepreneurs in Ulegorsk City Nevelsk Local Association of Entrepreneurs Union of Women in Kholmsk
Amur Region	Association of Restaurant Owners Amur Union of Business Women Chamber of Commerce for Amur Region Union of Entrepreneurs and Manufacturers
Buryatia	Chamber of Commerce Association of Timber Producers Association of Catering Enterprises

To ensure that associations could effectively advocate, the project first worked on strengthening them through organizational development training. Because the associations tended to be weak, this required more training than originally envisioned so we adapted our workplan accordingly. In Year One, **57 members of 14 BAs** participated in five seminars titled, *Strategic Development of a Successful Business Association*. Two seminars were held on Sakhalin, one in Amur region and two in Buryatia. Topics covered in the trainings included: strategic planning; how to obtain and retain members; how to produce an operating income; financial management; and networking.

Once the associations completed the organizational training, we began to provide **advocacy training** for them. One hundred and eight members from 15 associations received training on: how to effectively interact with government officials; how to develop and conduct their own advocacy campaigns; and how to mobilize resources. As a result, all partner BAs gained a base of knowledge to begin advocating for the rights of SMEs more effectively and in Year Two the associations will begin to conduct their own roundtables and advocacy campaigns.

Finally to assist the associations, ESD began issuing **advocacy microgrants** to assist them in their advocacy campaigns by providing necessary funding for events such as roundtables or hiring a consultant, if needed. Counterpart and the ESD staff have approved one advocacy microgrant this year and we expect to approve more than 10 microgrants next year so that BAs have the resources and expertise needed to apply what they have learned.

One of the successes of Year One has been establishing a **coalition of BAs** in the Amur region. The Club for Business Association Leaders has become a real instrument in negotiations with the government and in improving the business climate. For example, the Club is working to improve the municipal property rent regulations. They are developing a legislative initiative on rent relations to bring before the city Duma of Blagoveschensk, where they are already well respected. In Buryatia, with Makon's support, the Association of Cafés united entrepreneurs from other businesses (such as stores and restaurants) during the crisis involving street repairs (see Section 2.1.2 for more details). After this was resolved positively, entrepreneurs decided to enlarge the association and make it more of a coalition by bringing in other businesses. It will help them to express the interests of a larger number of businesses.

In Year One we also learned that **different types of cooperation with local government officials are more effective in the different regions**. For example Makon has more success through working meetings and workshops while Prognoz and SABP get more results through roundtables. It is important to note that despite the differences in method, all partners are achieving concrete results and will incorporate the methods most appropriate for their regions into the Year Two workplans.

One of the anticipated results that we were working toward this year was, "The time required to register a business reduced to the level required by Russian federal law." Through further assessment of each region and discussion with partner BAs, Counterpart has realized that **registration is no longer a major problem** in any of the regions. According to a survey, 75% of respondents (newly registered SMEs) said they spent no more than five days on registration procedures (the level required by Russian law). Therefore the project will not focus many resources on this issue and will instead focus on the priority areas identified by SMEs, such as a reduction in the number of inspections.

2.1.2 Activities from April-June

During the second quarter of 2004, ESD partners in three targeted regions continued making efforts on improving the regulatory environment in Amur Region, Buryatia and Sakhalin. ESD, through our partners, teaches associations how to identify SME issues and to address them with the government through public advocacy. The BAs are learning the skills and methods of lobbying and advocacy in order to cooperate with authorities in the future. Every partner identified administrative barriers in their region and focused on them.

Six roundtables were conducted with representatives of local association partners and government officials and **108 representatives** of BAs were involved in these activities. The most crucial issues raised at these roundtables were: police inspections, licensing and certification, municipal property rent rules and tariffs.

For example, according to an assessment conducted by SABP the number of police inspections has become a burden for SMEs on Sakhalin. SABP organized a series of roundtables in Yuzhno-Sakhalinsk and districts with representatives from the regional department for prevention of law violation. Businesspeople complained about the increasing number of planned and unplanned police inspections and frequent abuse in the course of inspections by police. Increasingly police failed to even produce a warrant during such inspections. **Follow up from the roundtable shows that the number of complaints against the police has decreased.**

In May the association in Nevelsk (Sakhalin) arranged and conducted a roundtable, *Federal Legislation Application with Respect to Militia Inspections of Small Businesses*. By preparing and holding this event **leaders of the BA put to practical use** what they have learned through the ESD Program.

On May 20, **a roundtable on certification issues** was held in Yuzhno-Sakhalinsk. Representatives of the oblast certification agencies, state control bodies, the Oblast Economic Committee, entrepreneurs and managers of production enterprises all attended the meeting. The roundtable reviewed the new federal law on technical regulation and requirements for certified products and terms of issuing certification. The problem was that the local Standardization and Certification Center issued certificates for execution of business activities for only one year. Another complaint from SMEs was that this Center drags out the process of certification and requires entrepreneurs to bring in many samples for testing. Since the entrepreneurs have to pay for testing themselves, this not only wastes time, but money too. Business representatives received general answers to questions about the process of certification. They also received answers on specific cases, as needed. The entrepreneurs were satisfied with the explanations provided.

In April a number of Buryatia businesspeople complained about sanitation inspections: according to federal and local acts every entrepreneur engaged in catering, retail or wholesale business should have a commercial garbage disposal. However, Makon found a discrepancy between federal and local laws and that SMEs were being charged very high fees for the design of these systems. Makon conducted a roundtable with representatives from the sanitation inspection department and as a result **fees paid by SMEs** for waste disposal design were **decreased by 50%**. Makon plans to follow up on this issue and conduct an informational

seminar about sanitation inspections for SMEs. They will invite representatives from the sanitation inspection department and let them clear up any controversy.

Prognoz and the **Club of Business Association Leaders** continue to work on improving the municipal property rent regulations. They will develop a **legislative initiative on rent relations** to bring before the city Duma of Blagoveschensk. The Foundation of Social and Economical Development of Blagoveschensk will present recommendations for amending the Regional Investment Law and will provide the legislative initiative on Innovation Law to the Amurskaya Oblast.

To rehabilitate an old street in Ulan-Ude (Buryatia), the City Administration decided to collect the necessary funds from the companies that are located on that street. The amounts varied from RUR 100,000 (\$3,500) to RUR 3,000,000 (\$103,000) and the companies were asked to contribute the money within a week. It should be noted here that in some cases the amounts exceeded the monthly turnover of the companies. ESD's regional partner, Makon, proposed that the trade companies join the **Association of Catering Companies** to protect their rights. The Association's initiative group, managers of Makon, and representatives of the Administration met on May 26 and 28 and as a result the **Mayor's Office and the BA agreed** on the following:

- Duties for street rehabilitation should be reduced to reasonable amounts that wouldn't cause any significant financial losses or even bankruptcy for the entrepreneurs. In some cases the duties were reduced by 10 times;
- To extend the payment term from 1 week to 3 months through additional agreements with the contractors;
- To consider the possibility of charging the amounts of duties on a taxable basis.

During this quarter ESD trained 108 members from 15 associations on **advocacy techniques and skills, financial sustainability, and resource mobilization**. Experts from Moscow's "Partner" Foundation conducted the seminars on Sakhalin and The Siberian Civic Initiatives Support Center (CIP) conducted the seminar in Amur region and Buryatia. CIP experts conducted a consultation for Prognoz managers and BA leaders as well. Together they analyzed and summarized what was accomplished during the first year and prepared a draft of the strategic plan for next year.

SABP and Makon managers conducted three **information seminars** for 84 businesspeople on the topics of labor regulation, licensing and inspections. To increase the number of informed and educated entrepreneurs Prognoz prepared materials and issued 30 CDs with information on business associations' strategy and advocacy management as well as a collection of local business regulations and laws. These CDs were distributed among association members and many of them were sent to remote towns.

Partners serve as a conduit for information between government and BAs/SMEs. Through roundtables, working meetings and public hearings SMEs and the government are interacting and consulting with each other more than ever. The Sakhalin Regional Committee of Economics developed an Entrepreneurial Support Program for 2004 – 2006 and in March SABP distributed the draft among association members and other businesspeople to get their feedback.

The BAs discussed the draft and made suggestions, comments and corrections to it. With the support of SABP they had a number of working meetings with the committee, the authors of the program and Duma representatives. The authors of the program agreed to include changes and additions into it. In late June **the Duma accepted the revised version** of the program.

Advocacy microgrants were announced starting May 1, 2004. The first application was received and approved with conditions in June. The approved application is from Blagoveschensk and will work to improve leasing terms in the city, which hinders the growth of many small businesses. The BA will hold roundtables with area SMEs and together they will prepare a legislative initiative to be presented before the City Duma. Other BAs are working on new applications.

2.1.3 Summary of Results from Year One

In Year One ESD has been able to significantly **strengthen nine local BAs** in the three regions of Buryatia, Amur region and Sakhalin. Counterpart helped the local partners to develop training and technical assistance plans for each local BA and find experts to conduct **16 seminars for the BAs**. As a result, **14 advocacy actions** were successfully conducted.

The ESD partners conducted assessments of baseline data on the regulatory environment twice: at the beginning of the Program (October – November 2003) and at the end of the first year (June 2004). The results of the initial assessment--showing that registration was not a big problem but that numbers of inspections was--were used to adjust the workplan for the first year and the results of the second assessment were used to check progress and make plans for the second year. In June in the areas where partners and BA were active, results show **3 - 4% improvement** regarding numbers of inspections conducted. We expect this modest progress to increase significantly during Year Two now that the ESD Program has already begun to strengthen associations.

As a result of regular consultations provided by Prognoz, the Guild of Culinary Professionals and Restaurateurs, has signed an Agreement of Cooperation with the sanitary inspectors. According to this Agreement, the Guild guarantees that its members follow sanitary protocol according to law. Since signing the Agreement, the number of inspections of Guild members has greatly decreased. Thus **management time spent dealing with sanitary inspections was reduced by 11%** as a result of the ESD Program.

On Sakhalin the tax burden is a key issue for SMEs. Through the ESD Program, SABP worked successfully with the Duma to allow rural catering enterprises to pay less tax and become more profitable. The rural entrepreneurs were paying the same rate of tax as urban entrepreneurs. The association argued that people in rural areas have less income and buying power than cities, and therefore rural business should have reduced level of taxation on imputed earnings. Through technical assistance from SABP and the ESD Program, the entrepreneurs introduced a motion into the Sakhalin Duma to address this issue. On November 6th the Duma Council adopted a special amendment to the law and rural catering businesses on Sakhalin will now **pay less tax** than their colleagues in towns. This will increase the incomes of small catering businesses in rural areas and help them to be more profitable.

2.1.4 Regional Approach and Results

Priority Issues. Recognizing the differences within each of our three target regions for regulatory reform, we conducted an initial assessment to find out the priority issues in each place. We found that registration does not appear to be a major issue in any of the regions but that frequency of inspections is a problem. On Sakhalin police inspections are the most problematic and the other issue of concern to SMEs is the tax burden. In Amur region inspections by police, fire safety, sanitation officials and trade officials are all problems. In Buryatia frequent inspections by police, fire safety and sanitary officials all hinder the work of SMEs.

Business Associations. There are not many BAs on Sakhalin so our project has chosen to work with the ones that are there, which tend to be broad-based and applicable to many kinds of SMEs. There are more BAs in Amur than on Sakhalin and they reflect the make-up of SMEs in the region ? that is, there are many cafés and catering companies so we work with a BA of Café Owners. There are also many construction companies so in Year Two we will work with a BA of construction companies. In Buryatia there are also mostly industry-specific BAs and as such two of the associations we work with are an association of timber producers and catering enterprises.

Types of Cooperation. In Year One we also learned that different types of cooperation with local government officials are more effective in the different regions. For example Makon has more success through working meetings and workshops while Prognoz and SABP get more results through roundtables. Despite the differences in method, all partners are achieving concrete results and will incorporate the methods most appropriate for their regions into the Year Two workplans.

2.2. Improving Access to Credit

2.2.1 Summary of Component for Year One

To increase access to credit, in Yakutia, Yuzhno-Sakhalinsk, Vladivostok and Chita **Counterpart** worked intensively with both lenders and potential borrowers to promote productive collaboration and increased lending to SMEs. Counterpart Enterprise Fund (CEF) was the primary partner and has been consulting closely with both Counterpart DC and ESD staff to refine this methodology throughout Year One and make adjustments for Year Two.

In Year One CEF **worked with both banks and non-bank financial institutions**. They held trainings on topics such as: how to attract financing; legal issues; accounting procedures; methods of lending and communication with entrepreneurial clients. CEF also provided **seminars and individual consulting for SMEs** on topics such as: types of SME financing (credits, loans, subsidies, leasing), procedures in applying for financing, how to decide how much financing you need, and debt repayment.

CEF also compiled an **electronic database of financial institutions**, which provide credit or leases to SMEs. The database appears on CEF's website and ESD's website. This critical information is available to all SMEs in the region.

One challenge in Year One that we were not anticipating was the **lack of financial trainers** in the Russian Far East. While CEF managed to find trainers in Western Russia this area of opportunity has led to planning a series of training of trainers to increase capacity in the RFE in Year Two.

Another challenge is the lack of **leasing deals in the \$15,000 - \$30,000 range** in the RFE. While there are a few large leasing companies, they remain largely uninterested in deals of this size. CEF, with assistance from Counterpart, has been investigating the most effective way to bring this product to the RFE and has also been engaging with leasing companies to increase access to large leases for SMEs, as needed.

2.2.2 Activities from April-June

During the reporting period, ESD organized **six seminars for 87 SMEs on sources of financing** in Yakutia, Yuzhno-Sakhalinsk, Vladivostok and Chita. The seminars covered the following topics:

- Types of SME financing and their influence on business plan development
- Typical structure and principles of investment project preparation
- Criteria of investment project evaluation that are most important for a potential investor
- Methods to evaluate an investment project's efficiency and risk analysis

The trainers used a case study approach. These seminars were very interactive and participants got answers to their questions throughout the seminars.

The same participants from the SME seminars were then involved in **roundtable** discussions with **local financial institutions**. During the roundtables, banks, leasing companies and funds presented their services and answered questions about their loan application requirements, document processing procedures, and collateral. **86 businesspeople** and **23 financial institutions** were involved in these events. Local governments supported the organization of the roundtables at all levels.

Two trainings for credit cooperatives were held by ESD in Yakutsk and Primorsky regions. In Yakutsk, ESD, in cooperation with RMC, organized a training for 14 loan officers that was devoted to the methods and practices of microlending, financial analysis, and communicating with entrepreneurial clients. The lessons learned are expected to increase the effectiveness of MFI loan managers' work with SMEs. ESD worked with the Yakutia Business School, a new training center, to help with seminars and training facilitations. To build their capacity, **CEF managers shared their experiences** of dealing with financial organizations and organizing seminars for them. Now the Business School will be able to conduct their own seminars.

In Vladivostok, ESD conducted **training for the Primorsky Association of Credit Cooperatives** on effective communication and client relations. Twenty participants from 15 cooperatives learned how to successfully communicate with clients; understand motivations of client behavior; solve conflicts; and more. During the training the participants developed and practiced the skills of effective communication in different situations that may arise between credit cooperative employees and clients. The training was a success and the Director of the

Chita second level credit cooperative, who happened to be visiting the Primorsky Association, requested that this training be conducted for his members in July.

ESD's partner, SABP, has a strong track record of organizing roundtables. CEF invited SABP's Director, Tatiana Garshenina, to share her experiences with them before preparing for the Credit Bureau Roundtable. During the session, Ms. Garshenina worked with CEF to develop a succinct process on how to organize a successful roundtable. This is an example of very useful cross-component collaboration.

Currently 44 banks, 20 leasing companies, and 50 credit cooperatives operate in the Russian Far East without the aid of a credit bureau. The absence of such an institution significantly hinders lending to SMEs and individual entrepreneurs since financial institutions are hesitant to issue loans without a proven credit history.

In order to facilitate increased access to credit in the RFE, Counterpart and CEF organized and conducted a roundtable on Credit Bureau issues in Khabarovsk on May 27. The main goals of this event were to:

- Inform participants about credit bureau activities in Russia and abroad;
- Stimulate discussion about the necessity, legitimacy and feasibility of a credit bureau in the RFE; and
- Encourage the discussion of concrete steps for follow-up.

In attendance were 26 top managers from a variety of institutions, including RFE banks, banking associations, the Central Bank, leasing companies, credit cooperatives and the Khabarovsk Krai government. Participants listened to the main speakers and then discussed issues relating to the creation and operation of a credit bureau.

The following experts were invited to speak at the roundtable by ESD:

- Mary Miller, Financial Consultant for Counterpart;
- Alexander Kopeikin, Senior Lawyer at Institute for Urban Economics;
- Alexey Chumachenko, Head Consultant at BFI Consulting Group; and
- Irina Gazizulina, Director of Credit Bureau from Novosibirsk.

The second part of the day was devoted to the discussion of organizing a credit bureau in the Russian Far East. The participants expressed the unanimous opinion that a credit bureau is absolutely necessary. As a result of the roundtable, the participants made a decision to create a working group that will be comprised of all interested parties. This working group will further research the feasibility of a credit bureau and prepare the financial and banking community for its creation. It was also decided at the roundtable to send a motion to the Duma about making reporting of negative information to credit bureaus a requirement for banks. This resolution was declined in the first hearing of a credit bureau law by the Duma, but roundtable participants think that it is critical that such a resolution become law.

There are four organizations that will comprise the credit bureau working group:

- Association of Asian and Pacific Banks
- Association of Far Eastern Banks and Financial Organizations
- RFE Sberbank
- Regiobank

The ESD Program will provide administrative assistance that the group might need and a CEF Manager will also be a part of the group. The Khabarovsk Regional Central Bank's Deputy Director, Natalia Vyugina, also expressed her support to the group in all issues related to establishing a credit bureau in the Russian Far East.

The roundtable was followed by a **seminar for banks and other financial institutions** on the Development Credit Authority Program (DCA) and other risk coverage methods. Conducted by Counterpart consultant Mary Miller, the seminar shared ways to improve access to credit for SMEs. The presentation on DCA included information about the program's main principles; requirements for creditors and borrowers; risk coverage; amounts and terms; possible sectors; instruments; fees; and examples of the program application. The seminar also included a brainstorming session on obstacles to SMEs receiving credit from banks and on the solutions to these obstacles. There were a total of 10 participants from seven organizations present at the training, including four participants from banks, one from the Central Bank, two from microfinance institutions, and three from business support institutions.

Mary Miller provided **consultation** to Dalcombank on the issue of applying to the DCA program for a joint Dalcombank-CEF SME credit program. As a follow-up Mary Miller developed a DCA application and sent it to the USAID DCA manager for review. Follow up will be done by ESD.

Further, ESD hired a consultant to develop a **program for banks on working with SMEs**, called, *How to give loans to SME and why it is profitable*. ESD plans to introduce this program to the banks in the second year. The initial program will be a three-day seminar for key people such as loan officers at interested banks. The seminar that has been developed covers all aspects of working with SMEs including why it is profitable to finance SMEs, how to communicate with small entrepreneurs, and how to analyze SMEs to determine if they are credit-worthy.

To **increase awareness about leasing**, the second issue of a quarterly bulletin on leasing was developed. It was attached to the ESD Program's quarterly newsletter and was also distributed during all the project events. It covers both the theory of leasing (concept of leasing, different types of leasing, advantages/disadvantages, etc.) and practical matters (FAQ, problems in accounting and other difficulties in leasing practice, and how to solve them). The current issue includes an article with a short presentation by one of the leasing companies in the target regions, a list of leasing companies in the RFE with their contact information, and a list of helpful and interesting websites on leasing.

2.2.3 Summary of Results from Year One

Breakdown on loans and leases by region and by type of financial institution

Region	Financial Institutions Reporting	No. of Total Loans	No. Loans to Women	Amount of Loans
Republic Sakha (Yakutia)	Funds of SME Support	105	37	\$566,731
	Credit Cooperatives	144	94	\$335,511
	Banks	354	156	\$6,427,881
	Leasing Companies	39	5	\$406,426
Sakhalin	Banks	19	8	\$1,684,211
Primorski Region	Credit Cooperatives	180	43	\$589,228
Total		841	385	\$10,192,932

There were nine seminars conducted for SMEs and 199 entrepreneurs and businesspeople were trained. There were also nine seminars conducted for financial institutions with a total of 157 people trained.

2.2.4 Regional Approach and Results

In Year One CEF found that there were differences between the four regions: Sakhalin, Chita, Yakutia, and Vladivostok. For example, the financial market in Chita is not very well developed. There are no leasing companies and only a few branches of big Moscow banks. These branches cannot create their own lending policies; they obey the rules and policies of their headquarters. Since the Chita region is predominantly agricultural, ESD will focus on the training of agricultural credit cooperatives and organizing general trainings and events for the rest of the financial institutions. In Sakha Republic, credit cooperatives are the biggest group of non-bank financial institutions. In addition, there are several new groups that are in the process of being registered as credit cooperatives. The Primorski Region's credit and leasing market is relatively developed but not necessarily satisfying small entrepreneurs' needs. The banks are more or less active in loaning to entrepreneurs, especially European Bank Reconstruction Development (EBRD) partner banks.

During this year we have learned that the financial institutions in **Yakutia and Primorski** region are more active and open for conversation and cooperation than in Sakhalin and Chita. Therefore we focused heavily on conducting seminars in these promising regions in the first year in order to meet demand and use our resources most effectively. At the same time we were looking for ways to develop relationships with financial institutions and create more interest in project seminars in Sakhalin and Chita.

2.3 Advanced Business and Sector-specific Training

2.3.1 Advanced Business Trainings Conducted

2.3.1.1 Summary of Component for Year One

The ESD Program has been working with local partners and Russian consultants to systematically assess and address training needs in all seven project regions. The advanced and sector-specific training has been conducted by **five** ESD local partners and **27** other training service providers. During Year One, **82** of the training courses have been conducted in the under-served regions of Amur, Buryatia, Chita, and Sakha (LOP target – 100).

Additional information has been gathered from sector-specific assessments to determine the specific training plans. Thus, US consultants Jeff Procak and Aaltje Van Zoele analyzed transportation and ecotourism sectors respectively and developed LOP training plans for these sectors.

ESD local partners and other training service providers conducted **170** advanced and sector-specific trainings in Amur and Chita oblasts, Primorski and Khabarovski Krai and the Republics of Buryatia and Sakha for **2,790** entrepreneurs. Most training has been conducted by Russian consultants and trainers. Where Russian expertise was not available, the Consortium engaged U.S. volunteer experts. Training has been demand-driven and most training organizers collected fees covering the training costs. To ensure wide participation of local entrepreneurs, the schedule and announcements of upcoming training have been placed on the ESD and partners' web sites, published in the ESD quarterly newsletter, and announced at the regional conferences, roundtables and other events.

2.3.1.2 Activities from April-June

In April-June 2004, the ESD Program enhanced its efforts in providing advanced business skills training. By April 2004, ESD partners have gained experience in identifying the needs for training, attracting and keeping clientele, selecting appropriate training topics and facilitating most advanced trainers, both local and from Western Russia. This resulted in significant increase of trainings provided and entrepreneurs trained.

Advanced Business Skills Training, April-June 2004

Krai/Oblast	Number of Trainings	Number of Participants
Khabarovski	41	573
Amursk	32	458
Buryatia	17	208
Primorski	19	319
Yakutia	6	132
Sakhalin	1	26
Chita	1	20
TOTAL	117	1736

ESD responds to market demand for trainings and works based upon the partners' and other training centers' requests. The most popular topics for trainings this quarter have been:

- Effective Sales Techniques
- How to Make Your Business to be Client-oriented
- Marketing Strategy and Advertising
- HR Management

Entrepreneurs in the targeted regions report that due to the ESD Program, short-term advanced business trainings have become more accessible and the variety of courses increased. The use of role playing has been extremely useful for participants. They report on how they and their businesses benefited from participating in trainings, for example:

- Evgeni Sizov, a private entrepreneur, was preparing negotiations to convince a bank to support him with a loan. The training course involved role play, where he practiced asking for a loan several times, and then watched it on video and discussed with the training participants. He improved his business presentation and secured a \$3,000 loan from the bank.
- Natalia Barykina, DVA Furniture Shop, practiced marketing techniques for an upcoming meeting with a new client. She received specific recommendations to improve her marketing skills. She held the meeting and obtained a large furniture order for \$3,500.
- Oleg Poltavtsev, Glorion Company manager (sales of cosmetics and health products), received a consultation on *How to Convince the Client that My Goods are Better, though More Expensive* and *How to Negotiate*. Now Oleg has become the leader of a group of managers and believes that this training helped him attract five major clients.
- Tatiana Sindeeva had some difficulties in negotiating deliveries with a supplier in Moscow. After practicing her conversation with the supplier at the training, she reached an agreement on a major delivery of goods for \$5,000 - for the first time on very favorable terms in actual negotiations.
- After participating in the same training by Valery Dudarev, Dmitri Khomenko from Confi Company, resolved a difficult situation with his major wholesale client, Peoples' Company chain of stores, using the tools he practiced during the training. As a result his profit rose to about \$10,000.

One **US volunteer, Richard Edwards** conducted training on *Strategic Management for Growing Companies*, June 21-23, 2004, in Blagoveschensk. The training was divided into two stages: two days of seminars followed by practical consultations. Twelve companies participated in one-day individual consultations with Edwards. One of them was a supermarket *Prostor* that was experiencing problems with a small number of clients and low volumes of sales. On visiting and analyzing the supermarket's performance, Edwards recommended that the company pay more attention to working with employees, mainly on client service. In the supermarket business a high standard of service is of great significance. Therefore, it is essential to invest money to teach employees practical skills to communicate with clients. 'No expenses on ads can help attract clients if there isn't really quality service,' said Edwards. As a result, the company's management decided to cut expenditures on advertising and use this money for

training to help their employees master the skills of effective and quality customer service, taking into consideration specific features of work in a supermarket.

To increase the local partners' capacity and bring sustainable resources to the region, ESD supports **training of trainers** where local trainers learn new training techniques and develop materials for their own trainings. On June 10-11th trainer Mark Kukushkin (from Moscow) conducted the training for trainers, during which 17 participants have raised their qualification in training techniques and acquired skills and knowledge necessary for a business-trainer. Participants also have learned the principles of creating their own trainings, how to frame training goals and objectives to meet the specific needs of clients and how to effectively interact with the participants.

2.3.1.3 Summary of Results from Year One

Market Assessments

During November-December 2003, the Consortium in cooperation with its training partners hired Russian consultants to update the existing market assessments and create new, appropriately priced SME training products. The consultants were selected from the Russian American Education Centers in Khabarovsk, Yuzhno-Sakhalinsk, Vladivostok, Yakutsk and Blagoveschensk, in cooperation with ESD local partners. This assessment and the developed materials are available at the ESD web site:
<http://www.esdproject.ru/publications/publications.htm>

Establishment of Training Priorities

Priority topics for training have been identified for each region by the end of December 2003, based on the findings of the market assessments. Despite the diversity of RFE regions, the training needs of business companies have proved to be similar – SMEs require business skills training in mainly marketing, sales and HR issues.

Development of Training Plans

ESD partners for the training component used the market assessment materials to put together their training plans in the region.

Development of New Training Modules

Based on the results of the assessments, research has been conducted to assess what training modules have already been developed and what need to be developed. ESD encouraged training partners to broadly disseminate training materials, courses and modules through live training sessions, CD-ROMs, radio, distance learning and video conferencing. The focus has been on developing new models in areas that have not yet been addressed. During Year One, ESD supported development of 3 training modules:

- *Strategic Management*
- *Organizational Development*
- *Merchandising as a Means for Success*

These materials are available to all ESD trainers and are placed on its web site at:
<http://www.esdproject.ru/materials/materials.htm> .

Organization of Training Provider Procurement Process

By the end of November 2003, ESD established a database of eligible training providers, and developed and disseminated a fee structure for training courses.

Expansion of Registry of SME Trainers

ESD Program has developed a registry of Russian SME trainers. Initially, in October 2003, the registry contained **256** entries. By the end of Year One, there are **317** trainers in this database, **151** (47%) of them women. Region-wise, the trainers come from:

Moscow and St. Petersburg – 189

ESD targeted regions – 85

Other regions – 43

ESD's goal is to increase the number of local trainers that come from the RFE regions. This will lead to the partners and training centers' sustainability. To ensure this, ESD regularly provides training for trainers, and in the first year of its operations the program facilitated **five** of such trainings, with the total number of people trained – **35**.

Support of Local Partners in Conducting Advanced Business Skills Training

ESD actively supports **five** local partners in facilitating training:

- Center for Foreign Trade and Investment “Prognoz” (Blagoveschensk),
- The Far Eastern Chamber of Commerce (Khabarovsk),
- Enterprise Support Center “MAKON” (Ulan-Ude),
- The Far Eastern Center for Economic Development (Vladivostok),
- The State Organization for Additional Education “Business School” (Yakutsk)

During Year One, ESD worked with **27** other partnering organizations and provided **170** advanced business trainings for **2790** participants from SMEs.

Advanced Business Skills Training, August 2003-June 2004

Krai/Oblast	Number of Trainings	Number of Participants
Khabarovski	59	981
Amursk	46	676
Buryatia	27	394
Primorski	24	466
Yakutia	8	164
Sakhalin	5	89
Chita	1	20
TOTAL	170	2790

One of ESD's main goals is to support **development of the partner organizations**. The Program partners report that participation contributes to their organizational and financial sustainability. They have significantly improved their positions, and reached out to more groups of customers. Training centers have had an opportunity to attract “expensive” specialists, and they have become more responsible in selecting training providers. Due to the trainings, now 70% to 80% of Center “Prognoz” budget constitute training fees. The ESD Program enabled the

Khabarovsk Chamber of Commerce to strengthen its training program, and to make the Chamber more attractive for its members. Contacts with authorities have grown to be more intensive and productive. For instance, the communication of “Makon” Center in Buryatia and contacts with the authorities in charge of culture, tourism and industry have improved. Due to the Program, the Khabarovsk Chamber of Commerce has started close cooperation with Khabarovsk Universities in such spheres as in-bound tourism, landscape design, fish processing, and organization of freight and passenger service. The University of Anchorage, AK, has invited Prognoz to join a USAID-funded start-up businesses support program. The Director of Prognoz was invited to join the group to design a new plan of social-economic development of Amur Region for the period until 2010.

Establishment of Training Priorities for Year Two

In June-July 2004, ESD staff and program partners have been identifying demand for short-term business trainings in the targeted regions. This has been done through analyses of the courses and topics already conducted, plus review of the post-training questionnaires in which training participants write in the names of courses that they would like to take in the future. While ESD will continue to support trainings in sales, marketing and HR issues, it is our goal to bring new topics to the regions and develop new training materials. Such prospective themes may be: *International Standards in Accounting (GAAP Principles), International Quality Standards (ISO 9000), Export-Import Operations, E-commerce, etc.*

ESD will make additional efforts to provide better access to business trainings to a broader audience through development of training courses for entrepreneurs on CD-ROMs, facilitating long-distance learning and web-conferencing.

2.3.1.4 Regional Approach and Results

During Year One, ESD provided advanced business skills trainings to all of its seven targeted regions. Each region has its own specifics, so ESD responded to a particular regional demand, working exclusively on requests from regional partners or training centers. For example, training provider services in **Vladivostok** are highly developed, so the ESD Partner the Far Eastern Center for Economic Development found its niche in providing trainings for entrepreneurs on how to participate in municipal tenders for services and goods, taking this training to the smaller cities outside of Vladivostok – Artyom, Ussuriisk and Nakhodka. In **Khabarovsk** there are 10 training centers that ESD works with. This creates a tight competition among them. Thus, the partner Far Eastern Chamber of Commerce has been concentrating on sector-specific trainings, taking advantage of its expertise and extending its services to existing clients. **Blagoveschensk** is an area of fast-developing trading companies because of its proximity to China. ESD has been responsive to their demand and supported trainings for them in sales techniques, marketing and client relations. **Chita** has proved to be a region with under-developed entrepreneurial services. Most companies engaged in small and medium business are start ups, so the need for advanced business skills is not well formed yet. However, ESD has built relationships with the Regional Agency for SME Support, and has started to put together training for shop managers and tourism companies. When the ESD Program started to work on **Sakhalin**, it found out that entrepreneurs on the island have been receiving a lot of trainings and seminars from various organizations, including the American Business Center, Russian-American Business Educational Center, FRAEC, etc. during the past ten years. Taking into

consideration this fact and also a limited number of people involved in business, ESD has decided to concentrate its efforts on sector-specific trainings, working thorough sector-specific associations. In **Ulan-Ude** the market of training services is poorly developed, entrepreneurs are not familiar with short-term training of business skills; and they don't understand the difference between trainings and information seminars. Thus, the SMEs involvement in trainings has not been very active; the partner MAKON experiences difficulties with promotion of their training services.

2.3.2 Sector-specific Trainings Conducted

2.3.2.1 Summary of Component for Year One

ESD has been supporting RFE businesses and associations by conducting sector-specific training in key SME sectors. Fish processing, transportation, servicing and tourism have been a focus of ESD during Year One as the sectors where small- and medium-sized businesses prevail.

2.3.2.2 Activities from April-June

During the last quarter, **102** companies successfully completed sector-specific training in Khabarovsk, Ulan-Ude and Yakutsk.

Here are some examples of ESD work with the RFE sectors:

Ecotourism

The Far Eastern Chamber of Commerce and Industry, under the ESD Program, organized and conducted a series of seminars on ecotourism from May 5 to May 11. This series included the following: *International Ecotourism: International Standards in the Ecotourism Industry*, *Possibilities of Ecotourism Development*, and *Marketing in Ecotourism*. The seminars were conducted by ecotourism specialist Aaltje van Zoelen. **18** ecotourism specialists representing **15** tourist companies and institutions participated in the series.

The following preliminary results of her invaluable assistance were tracked:

1. *Unitravel Co.* specialists developed a new website oriented towards the international market. They also developed two new ecological tours. These measures will help Unitravel to find new domestic and foreign tourists.
2. *Dalreo Co.* specialists started development of river ecological tours for smaller groups.
3. The director of Bon-Voyage Co. suggested that the participants form an *Ecotourism Association*. All 18 participants supported that proposal. Creation of the Ecotourism Association will make it possible to better cooperate with scientific institutions, develop quality tour products and attract more customers. With the help of the Association all interested companies will be able to work with the Government to solve problems in the ecotourism business.

Souvenirs and Crafts

In May 2004 an American consultant Ms. Vicki Lederman was invited to conduct a series of seminars on *Marketing of Souvenirs*. Vicki held a two-day seminar in Ulan-Ude on May 21-22 after conducting a preliminary study of souvenir producers on site. Among the participants were

individual producers and companies employing people like “Business Souvenirs” Art Saloon, Art Studio, and Art-Hall.

During the seminar the participants acquired knowledge of marketing and skills how to develop new brands to increase sales. The individual consultations were also provided by Ms. Vicki Lederman. After the seminar a number of articles were published in local mass-media noting how timely the seminar on Marketing of Souvenirs was by the American expert due to the upcoming City Contest “The Most Traditional Buryat Souvenir.” On June 17th, Tatiana Komovich, a participant of the seminar won the Contest. As the artist said she would never have won the prize if Vicki had not taught her how important it is to be client oriented.

After the assignment was completed in Buryatia, Vicki traveled to Yakutsk, another region with great opportunities for tourists and souvenir markets. There were **31** participants from **19** SMEs at the four-day seminar which included group consultations on Marketing of Souvenirs. Among them there were “Sardaana”, “Gobelen”, “Lainer”, “Sakhabult” -- producers of souvenirs. Participants gained new understanding of the importance and methods of marketing, product development, costing and pricing. They also discussed creating a brand image for Sakha, which all would benefit from.

At the end of the assignment Vicki Lederman wrote a marketing training manual which was later translated into Russian for use by other marketing trainers, and delivered a set of translated handouts summarizing key points of the seminar to the Khabarovsk office for distribution to participants both in Buryatia and Yakutia.

Fish Processing

The ESD Program conducted several fish processing trainings in Khabarovsk during April. Seminars and consultations were held for four days at the Chamber of Commerce. Fish processing specialists learned about cutting edge developments from research institutes, that when introduced, will enable fish processors to produce new sea products and to offer them on a wide scale to the consumer.

The specialists became familiar with modern technologies of seafood and fish processing. Mr. N. Tungusov, trainer and consultant from Vladivostok, conducted the seminar on *Ways to Improve Seafood and Fish Products*. The ideas shared by the expert from Vladivostok especially excited representatives of the Usadba Limited Liability Company. After they described in detail the problems that they face in fish freezing, trainer Tungusov, assisted them to choose proper freezing parameters and adjust the entire process. In the future this will enable the company to produce high quality products.

In addition, Khabarovsk Production-Commercial Fish Complex plans to sign an agreement for regular scientific consulting with the Far Eastern Fish Institute (Vladivostok). Technologists from Khabarovsk Production-Commercial Fish Complex plan to put biologically active supplements into the fish process, which can extend the storage period of finished products.

2.3.2.3 Summary of Results from Year One

During Year One, ESD conducted sector analyses in the targeted regions, identified key SME sectors in the RFE and their needs in training and consulting. The targeted sectors have been: fish processing, transportation, servicing and tourism. ESD hired Russian and US consultants to identify key sector-specific business associations and study their training demands.

In its first year, ESD facilitated **14** sector-specific training sessions for **196** companies. In ecotourism, local companies learned how to develop feasible projects and products. Souvenir manufacturing companies and entrepreneurs acquired new skills in marketing of their products and learned about international experience in this area. Fish processing companies became familiar with modern technologies of seafood and fish processing.

2.3.2.4 Regional Approach and Results

ESD approach to sector-specific training has been closely connected with the regional peculiarities and the way sectors are developed in the targeted areas. **Buryatia, Yakutia and Khabarovsk Krai** have been traditionally attractive to Russian and international tourists, though lack of feasible and quality products hindered development of this sector in the regions. ESD consultants and trainers addressed this demand and plan to work more on these issues to promote ecotourism and souvenir production and thus enhance support to SMEs engaged in these sectors. **Khabarovsk and Primorsky Krai**s are the biggest transportation hubs in the Far East. The US Consultant Jeff Procak identified key players in this sector and provided an overview of opportunities for and training needs of small businesses seeking to enter – or maintain their presence in – the transport sector. **Sakhalin, Khabarovsk and Primorye** are the main fishing regions in the RFE. The ESD Program has been working with fish processing associations to organize additional training in value-added processing technologies and quality control.

2.4 Sector-specific Consultancies

2.4.1 Summary of Results from Year One

Under this component, assistance has been provided to SMEs working in the tourism and fish processing sectors on marketing, product development and technology modernization. Consultancies have been demand-driven and coordinated through association partners in order to increase their capacity and expertise as a legacy mechanism. Jeff Procak's assessment on transportation, Aaltje Van Zoolen's work on tourism and Vicki Ledermen's work on souvenirs have already been mentioned.

In addition, the *Khabarovsk Association of Fisheries* recruited participants for a "**Seafood Processing Europe**" exhibition in Belgium on May 4-6, 2004. Due to delayed issue of visas to participants, only one person could visit the trade show – Mr. Dmitry Vaulin, a Chairman of Council for the Ethnic Community from the North of Khabarovsk Krai. Mr. Vaulin reports the following outcomes of his trip:

1. There were many European fish processing equipment companies at the exhibit. Mr. Vaulin negotiated prices for equipment delivery and found them more attractive than Korean or Japanese bids. A British supplier will provide refrigerators (CIF) for 60,000 euro whereas

Korean equipment of less quality is offered for \$90,000. Mr. Vaulin estimates that one of the biggest results of his trip was obtaining direct contacts with equipment suppliers.

As head of a national indigenous community, Mr. Vaulin is preparing to report to the Ministry of Natural Resources (Department of the Indigenous People of the North) the price and quality analysis of the prospective deals. The Ministry will consider his report in July and allocate finances to purchase the necessary equipment.

2. A huge German fish-processing enterprise Ness invited Mr. Vaulin to be the official representative in Khabarovsk Krai and to start construction of a modern fish-processing factory in Khabarovsk. Mr. Vaulin is now considering this offer. ESD will stay in touch with Vaulin to find out more about this project development, since ESD contributed 50% of Mr. Vaulin's expenses for the trip to Belgium.

The same association pursued their members' need in modernized equipment and requested ESD support for four companies to visit a trade show in St. Petersburg «**Inrybprom-2004**», the International Specialized Exhibition for modern means of use and reproduction of water biological resources. Four representatives from the Khabarovsk Industrial-Trade Fish Complex, Fishing Kolkhoz "Rybak Severa", OOO "Fishmark" and The Khabarovsk Industrial-Trade Fish Complex Sales Company participated in this event on June 22-25, 2004. As an immediate result of the trade show, the Khabarovsk Industrial-Trade Fish Complex reports signing two contracts for \$11,000 total worth of fish processing equipment with OOO Lesnaya Company, plus a \$4,000 contract with SPO Market Company for a skinning machine, and a pilot contract with an advertising company for \$550.

2.5 Outreach and Communication

ESD fosters interregional collaboration and communication by adopting an aggressive outreach agenda. To use resources efficiently and impact large numbers, the ESD Program ensures collaboration, coordination and communication with other projects, the local governments and other beneficiaries. This objective is cross cutting and supports all components and tasks.

2.5.1 Collaboration with TA Assistance Programs

The ESD Program has been successfully collaborating with other USAID and donor projects in the project regions as well as drawing upon lessons learned (when possible) from projects in other regions of Russia. Collaboration has includes the sharing of information, and inviting participants to trainings, seminars and roundtables. ESD makes use of existing research papers, studies, tools, lessons learned and resources of other projects. For example, from Winrock's FOREST Project we used forest products' market studies, a database of financial lending institutions, and associations strengthening and evaluation tools.

From the Center for International Private Enterprise we used the assessments conducted to establish our regulatory reform priorities. In addition we found ways to collaborate or gain information from:

- Economic Policy Reform (Think Tank Reports)
- CEFIR reports
- Russian Microfinance Center (RMC)

- Integrated Business Services
- BISNIS
- Institute for Sustainable Communities
- Sakhalin Regional Micro Credit Program
- Eurasia Foundation
- University of Alaska
- Delta Capital Management Inc.
- US Consulate General
- FRAEC
- Development Alternatives, Inc. and
- other donor programs.

2.5.2 Monthly Consultations with Regional-level Officials

It has been the Chief of Party's responsibility to establish and maintain regular communication with local governments to ensure that the ESD Program's goals and objectives are clearly communicated on all levels. The Chief of Party regularly visited the targeted regions and held meetings with regional authorities to coordinate efforts on enhancing SME development and learn about necessary steps the program can make to speed up the adoption of regional programs for support of SMEs. Local government representatives have been invited to ESD's main events, such as conferences, roundtables, and partners meetings.

2.5.3 Creation of ESD Web Site and Quarterly Newsletter

ESD Program has designed the website www.esdproject.ru in October 2004. The site has links to websites of all ESD partners. To disseminate information, including up-to-date training schedules, the ESD web page includes a quarterly newsletter describing the program's activities and making available news, events, and useful references. This newsletter has been printed and distributed in hard copy among projects partners and clients in December 2003, March 2004, and June 2004.

3. Problems/Difficulties Anticipated in the Next Three Months

While we propose to keep our overall program objective of "Mobilizing entrepreneurs, business associations, and local governments to improve the regulatory environment for SMEs, particularly in Amur, Buryatia and Sakhalin," we would like to **engage USAID to help us to modify the results**. We suggest the following end of project results:

- Business associations able to identify obstacles and their underlying issues, prioritize, and develop effective campaigns to advocate for their redress.
- Associations' capacity built to develop policy, regulatory, and legislative alternatives and effectively advocate them through legal and political channels.
- Government decision-makers engage SMEs in making laws.
- Inspections by fire safety, police and sanitation officials reduced to the level allowed by law.